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CITY OF WAYNEBORO
AUDITED FINANCIAL STATEMENTS
AND
SPECIAL REPORTS

For the Year Ended September 30, 2004

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CITY OF WAYNESBORO

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CITY OF WAYNESBORO

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CITY OF WAYNESBORO

FINANCIAL AUDIT REPORT

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**INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS ACCOMPANIED BY THE REQUIRED SUPPLEMENTAL
INFORMATION AND SUPPLEMENTAL INFORMATION**

Honorable Mayor and Members of the Board of Aldermen
Waynesboro, Mississippi

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waynesboro, Mississippi as of and for the year ended September 30, 2004, which collectively comprise the city's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the city's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waynesboro, Mississippi as of September 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended September 30, 2004, the city implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 27, 2005, on my consideration of the city's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Samuel F. Britton, CPA

Waynesboro, Mississippi
January 27, 2005

CITY OF WAYNESBORO

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF WAYNESBORO
Management's Discussion and Analysis
For the Year Ended September 30, 2004

This discussion and analysis of the City of Waynesboro's financial performance provides an overall review of the City's financial activities for the year ended September 30, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for FY 2004 were as follows:

- Total assets of governmental funds increased **\$40,271** or **4.9%** from FY 2003.
- The City received federal funding assistance through a variety of different loan and grant programs. Total federal funds of **\$1,018,050** were received during FY 2004 and expended on a variety of projects, including airport expansion, water and sewer infrastructure and fire and rescue equipment.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Waynesboro as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during FY 2004?" The Statement of Net Assets and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when the cash is received or paid.

CITY OF WAYNESBORO
Management's Discussion and Analysis
For the Year Ended September 30, 2004
(continued)

These two statements report the City's net assets and the changes in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of City capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, some of the City's activities are reported as Governmental Activities. Governmental Activities consist of most of the City's services, including police, fire, administration, sanitation, street and all other departments. The City of Waynesboro is also involved in Business Type Activities, which include water and sewer services provided to its citizens. The City of Waynesboro has no Component units.

Reporting the City of Waynesboro's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Waynesboro, the City's major funds are the General fund, Fire Protection fund, and the Water and Sewer fund.

Governmental Funds

Most of the City's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to the City's residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds

The City of Waynesboro maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Waynesboro uses an enterprise fund to account for its Water and Sewer activities.

CITY OF WAYNESBORO
Management's Discussion and Analysis
For the Year Ended September 30, 2004
(continued)

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer fund, which is considered to be a major fund of the City of Waynesboro.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Waynesboro's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*.

The City of Waynesboro as a Whole – Governmental and Business-type activities

Recall that the Statement of Net Assets looks at the City as a whole.

Total assets at September 30, 2004 amounted to **\$14,214,966**. Capital assets, net of accumulated depreciation, accounted for **\$12,834,827** of total assets.

Net assets of the City's governmental activities totaled **\$4,908,013** for the year ended September 30, 2004, of which **\$676,433** was unrestricted.

Net assets of the City's business-type activities totaled **\$5,758,624** for the year ended September 30, 2004, of which **\$51,963** was unrestricted.

The Change in Net Assets for both governmental and business-type activities for the year ended September 30, 2004 represents a positive increase of **\$629,899**. Since this is the first year the City has prepared financial statements following the GASB Statement 34 reporting model, revenue and expense comparisons to FY 2003 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Governmental Activities

Several revenues sources fund our Governmental Activities. Under the accrual basis of accounting, total revenue is comprised of various types of taxes, charges for services, grants and

CITY OF WAYNESBORO
Management's Discussion and Analysis
For the Year Ended September 30, 2004
(continued)

contributions, investment income, and other miscellaneous sources. Sales tax revenue totaled **\$1,750,473**, or **43.5%** of total revenue. Property taxes totaled **\$824,833**, or **20.5%** of total revenue. Operating and capital grants and contributions totaled **\$278,960**, or **6.9%** of total revenue. Charges for services, which includes licenses and permits, fines and forfeitures, and garbage collection fees, totaled **\$471,719**, or **11.7%** of total revenue. Investment income, which includes interest earned and rental income, totaled **\$52,467**, or **1.3%** of total revenue. Homestead exemption reimbursement from the State of Mississippi totaled **\$28,828**, or **0.7%** of total revenue. Miscellaneous other sources comprised the remaining **15.4%** of total revenue.

Major expense activities, under the accrual basis of accounting, included: Public Safety expenses accounting for **34.6%** of total program expenses, Public Works expenses accounting for **29.6%** of total program expenses, General Government expenses accounting for **22.8%** of total program expenses, Culture and Recreation expenses accounting for **11.0%** of total program expenses and Interest on Long-term Debt accounting for roughly **2.0%** of total expenses. The City is committed to providing the basic services that our residents expect.

Although the City has worked very hard on increasing our various revenue bases and reducing cost department by department, we still strive to provide better services at the lowest possible cost.

Business-type Activities

Water sales, sewer charges, and other types of charges support the City's water and sewer activities. These charges for services covered **92.8%** of total expenses for the year ending September 30, 2004. Federal capital grants received during the year of **\$464,500** covered the remaining expenses, in addition to unrestricted investment income of **\$7,261** and transfers in of **\$521**. Program revenues, general revenues, and transfers exceeded expenses during the year, resulting in a positive increase of **\$307,244** in net assets.

The City's Funds – Governmental and Proprietary

Information about the City's major governmental funds is included in detail in the fund financial statements starting with Exhibit 3. These funds are accounted for using the modified accrual basis of accounting. All Governmental funds had total revenues of **\$4,022,935** and expenditures of **\$4,341,929**. Other financing sources and uses, in aggregate, including debt issues and sales of capital assets, totaled **\$316,305**.

The fund balance of the general fund remained relatively constant, decreasing by **\$20,344**.

Information about the City's water and sewer fund is included in detail in the proprietary fund financial statements (Exhibits 5 through 7). These proprietary fund financial statements include the City's water and sewer fund as discussed previously.

CITY OF WAYNESBORO
Management's Discussion and Analysis
For the Year Ended September 30, 2004
(continued)

Total assets of the Water and Sewer fund were **\$7,979,103** and total liabilities were **\$2,220,479** at September 30, 2004. Operating expenses exceeded total operating revenues resulting in a net operating loss of **\$86,330**. However, the Water and Sewer fund produced operating income before depreciation of **\$235,397**. The Water and Sewer fund's operating activities also provided positive cash flow of **\$253,197** for the year ended September 30, 2004.

The City's Water and Sewer fund was the recipient of **\$473,500** in Federal grant money for FY 2004. These funds were expended for construction on the City's Jones Branch Sub Interceptor Project. Additional approved Federal funds under various programs remained to be drawn upon at September 30, 2004 to complete this project.

General Fund Budgeting Highlights

The City's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts and disbursements. The most significant budgeted fund is the General fund.

During the course of FY 2004, the City amended its general fund budget. All recommendations for a budget change are properly recommended and approved. The City does not allow budget changes that modify line items within departments without board approval. With the General Fund supporting many of our major activities such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

For the General Fund, original budgeted revenues were **\$3,448,115**; final budget amounts were **\$3,457,902**; and actual revenue collections were **\$3,693,978**. The major factor contributing to the increase of actual revenues over budgeted amounts was due to the increase in State Shared revenue.

The City of Waynesboro's ending cash balance in the general fund was **\$52,417** less than the final budgeted amount of **\$600,000**.

The City's actual revenues and expenditures showed positive variances with final budgeted amounts, resulting in a net positive change in the General fund cash balance of **\$3,125** for the year ended September 30, 2004.

Capital Assets and General Long-Term Obligations – Governmental and Business-type activities

Capital assets include Land, Construction in Progress, Infrastructure, Buildings, Improvements other than Buildings, Mobile Equipment, Furniture and Equipment, and Leased Property under capital leases.

Capital Assets - Governmental Activities

CITY OF WAYNESBORO
Management's Discussion and Analysis
For the Year Ended September 30, 2004
(continued)

At September 30, 2004, the City of Waynesboro had total capital assets used in governmental activities of **\$6,859,569**, with accumulated depreciation on depreciable assets of **\$1,448,323**, resulting in net capital assets of **\$5,411,246**. See the notes to the financial statements for a more detailed discussion.

Since this is the first year of reporting capital assets in this detail, comparative amounts for Governmental activities are not available, but will be provided in future years.

General Long-Term Obligations - Governmental Activities

At September 30, 2004 the City of Waynesboro's governmental activities had **\$1,210,074** in outstanding capital leases and other long-term debt. Of this total amount, **\$274,135** is considered due within one year. See the notes to the financial statements for a more detailed discussion.

Capital Assets - Business-type Activities

At September 30, 2004, the City of Waynesboro had total capital assets used in business-type activities of **\$14,223,174**, with accumulated depreciation on depreciable assets of **\$6,799,593**, resulting in net capital assets of **\$7,423,581**. See the notes to the financial statements for a more detailed discussion.

Since this is the first year of reporting capital assets in this detail, comparative amounts for Business-type activities are not available, but will be provided in future years.

General Long-Term Obligations - Business-type Activities

At September 30, 2004, the City of Waynesboro had **\$2,022,895** in outstanding revenue bonds, capital leases and other long-term debt. Of this total amount, **\$163,388** is considered due within one year. See the notes to the financial statements for a more detailed discussion.

CITY OF WAYNESBORO
Management's Discussion and Analysis
For the Year Ended September 30, 2004
(continued)

Current Financial Related Activities and Other Items of Interest

These are exciting times here in the City of Waynesboro. There are so many good things happening that they just cannot all be covered within the boundaries of this report. However, I would like to mention just a few of the many things occurring in the City at this time.

Through the City of Waynesboro's staff and resources, more services are being provided to more people than ever before in the 129 year history of our great city. Waynesboro's financial statements indicate that, fiscally speaking, our city is in good shape. In consideration of Waynesboro's expanding population and geography, this fact is worthy of note and evidences the commitment of the administration and staff to hard work and dutiful stewardship over all that has been placed in their hands. In addition to the day-to-day services, there are a number of capital improvement and expansion projects underway and planned.

At the conclusion of the fiscal year for which this report relates, one of those projects is the expansion of the airport. The airport expansion has progressed and we are now ready to begin garnering Federal funds for the final phase of the airport project. This phase is planned to involve the construction of additional hanger space as well as a new office and receiving structure.

In addition to the airport project, the Jones Branch Sewer Interceptor project will be completed during the course of fiscal year 2005. The final phase of this project will be the addition of sewer service into the Creekdale Subdivision, an area that was annexed by the City in its' most recent boundary expansion. Upon completion of the Creekdale component, the framework for additional sewer expansion into what we call the landfill area will be laid making future additions practical and possible. This addition to Waynesboro's sewer system will be financed by a combination of Federal grant monies obtained through the Community Development Block Grant Program along with additional grants and loans from the United States Department of Agriculture Rural Utilities division.

Another major capital improvement planned for fiscal year 2005 is the construction of a new police department and municipal court building. The construction of this facility is guaranteed through a United States Department of Agriculture low interest loan with grants accumulating from the same department along with a Federal line item appropriation and prospective state funds as well that will total in the neighborhood of \$800,000.

Along with the three major construction programs, the City is planning to purchase a new fire truck in fiscal year 2005. This year, the Board of Aldermen re-arranged the annual tax levy. The total amount of the levy remained the same, however, 2 mills were moved from the General Fund and dedicated to the Fire Fund taking the Fire Fund levy from 5 mills to 7 mills. This move ensures that Waynesboro's fire department can maintain the superior level of performance required to protect the property and life of the citizenry of the City. This levy is proof of the administration's commitment to serving the health and welfare of Waynesboro's population and to maintain the most advantageous rating from the fire bureau possible.

CITY OF WAYNESBORO
Management's Discussion and Analysis
For the Year Ended September 30, 2004
(continued)

Your City's administration has worked diligently to put Waynesboro in the position of progress. From changes in the rate structure of the Water and Sewer Department to privatizing the garbage collection, things have been done to improve Waynesboro's operations and financial stability. Waynesboro is poised for progress and with due diligence of City administration, the support of its' citizens, and the blessing of Almighty God, Waynesboro will be a place where all have an opportunity to live in peace and prosper. We join together with you, as we work for, and look to a bright tomorrow in Waynesboro.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, grantor agencies, grantor entities and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact City Clerk Sytrecia Hull at City Hall, 714 Wayne Street, Waynesboro, Mississippi or by phone (601) 735-4874.

CITY OF WAYNESBORO

FINANCIAL STATEMENTS

CITY OF WAYNESBORO
Statement of Net Assets – Exhibit 1
September 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 569,416	203,818	773,234
Property tax receivable	31,404		31,404
Sales tax receivable	142,725		142,725
Franchise tax receivable	73,441		73,441
Road and bridge tax receivable	6,631		6,631
Accounts receivable, net		134,380	134,380
Internal balances	31,755	(31,755)	0
Inventories	1,000	1,000	2,000
Restricted assets - cash		216,324	216,324
Capital assets, net	5,411,246	7,423,581	12,834,827
Total Assets	<u>6,267,618</u>	<u>7,947,348</u>	<u>14,214,966</u>
LIABILITIES			
Claims payable	119,440	27,933	147,373
Liabilities payable from restricted assets:			
Customer deposits payable		118,167	118,167
Matured bonds and interest payable		98,958	98,958
Accrued interest payable		1,961	1,961
Other payables	30,091	8,461	38,552
Long-term liabilities			
Due within one year:			
Capital related debt	246,305	73,737	320,042
Non-capital debt	27,830		27,830
Due in more than one year:			
Capital related debt	935,939	1,859,507	2,795,446
Non-capital debt			0
Total Liabilities	<u>1,359,605</u>	<u>2,188,724</u>	<u>3,548,329</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,229,002	5,490,337	9,719,339
Restricted net assets:			
Expendable:			
Debt service		216,324	216,324
Other purposes	1,000		1,000
Nonexpendable	1,578		1,578
Unrestricted	676,433	51,963	728,396
Total Net Assets	<u>\$ 4,908,013</u>	<u>5,758,624</u>	<u>10,666,637</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WAYNESBORO
Statement of Activities – Exhibit 2
September 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 844,666	31,324		139,603	(673,739)		(673,739)
Public safety	1,280,490	99,808	53,470	15,290	(1,111,922)		(1,111,922)
Public works	1,094,325	340,587			(753,738)		(753,738)
Health and welfare					0		0
Culture and recreation	407,386		70,597		(336,789)		(336,789)
Interest on long-term debt	70,892				(70,892)	(78,708)	(149,600)
Total Governmental Activities	<u>3,697,759</u>	<u>471,719</u>	<u>124,067</u>	<u>154,893</u>	<u>(2,947,080)</u>	<u>(78,708)</u>	<u>(3,025,788)</u>
Business-type activities:							
Water and sewer	<u>1,206,110</u>	<u>1,119,780</u>	<u>0</u>	<u>464,500</u>		<u>378,170</u>	<u>378,170</u>
Total Primary Government	<u>\$ 4,903,869</u>	<u>1,591,499</u>	<u>124,067</u>	<u>619,393</u>	<u>(2,947,080)</u>	<u>299,462</u>	<u>(2,647,618)</u>
General revenues:							
Taxes:							
Property taxes				\$ 824,833			824,833
Road & bridge privilege taxes				179,681			179,681
Sales taxes				1,750,473			1,750,473
Franchise taxes				328,005			328,005
Privilege taxes				20,461			20,461
Rail car taxes				733			733
Gasoline taxes				9,672			9,672
Homestead reimbursement from State				28,828			28,828
Grants and contributions not restricted to specific programs							0
Unrestricted gifts and donations							0
Unrestricted investment income				52,467		7,261	59,728
Miscellaneous				77,103			77,103
Transfers				(2,521)		521	(2,000)
Total General Revenues and Transfers				<u>3,269,735</u>		<u>7,782</u>	<u>3,277,517</u>
Changes in Net Assets				<u>322,655</u>		<u>307,244</u>	<u>629,899</u>
Net Assets - Beginning				707,960		5,514,146	6,222,106
Cumulative effect of GASB Statement 34 adjustments				3,877,398		(62,766)	3,814,632
Net Assets - Beginning restated				<u>4,585,358</u>		<u>5,451,380</u>	<u>10,036,738</u>
Net Assets - Ending				<u>\$ 4,908,013</u>		<u>5,758,624</u>	<u>10,666,637</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WAYNESBORO
Balance Sheet – Governmental Funds – Exhibit 3
September 30, 2004

	<u>Major Funds</u>		<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Fire Protection</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
ASSETS				
Cash and investments	\$ 547,583	97	21,736	569,416
Property tax receivable - real and personal	25,216	6,188		31,404
Sales tax receivable	142,725			142,725
Franchise tax receivable	73,441			73,441
Road and bridge tax receivable	6,631			6,631
Due from other funds	31,755	2,164		33,919
Inventories	1,000			1,000
Total Assets	<u>\$ 828,351</u>	<u>8,449</u>	<u>21,736</u>	<u>858,536</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Claims payable	\$ 117,986	1,454		119,440
Due to other funds	2,164			2,164
Other payables	22,306	7,785		30,091
Total Liabilities	<u>142,456</u>	<u>9,239</u>	<u>0</u>	<u>151,695</u>
Fund balances:				
Reserved for:				
Inventory	1,000			1,000
Perpetual care			1,578	1,578
Unreserved, reported in:				
General fund	684,895			684,895
Special revenue funds		(790)		(790)
Capital projects funds			20,158	20,158
Permanent fund				0
Total Fund Balances	<u>685,895</u>	<u>(790)</u>	<u>21,736</u>	<u>706,841</u>
Total Liabilities and Fund Balances	<u>\$ 828,351</u>	<u>8,449</u>	<u>21,736</u>	<u>858,536</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WAYNESBORO
Reconciliation of Governmental Funds
Balance Sheet to the Statement of Net Assets – Exhibit 3.1
September 30, 2004

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 706,841
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Amounts not recorded as of 10-1-03, capital assets and accumulated depreciation	(1,988,393)
Capital assets net of depreciation as of 10-1-03	7,302,298
Plus capital outlay expenditures made during the year	271,667
Less depreciation expense recorded during the year	(174,326)
Less book value of capital assets sold during the year	0
Long-term liabilities are not due and payable in the current-period and therefore are not reported in the funds.	
Long-term liabilities	(1,210,074)
Total net assets - governmental activities (Exhibit 1)	\$ <u><u>4,908,013</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF WAYNESBORO
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds – Exhibit 4
September 30, 2004

	<u>Major Funds</u>		<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Fire Protection</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
REVENUES				
Taxes:	\$			
Property - real and personal	658,802	166,031		824,833
Sales	1,750,473			1,750,473
Franchise	328,005			328,005
Road and bridge	179,681			179,681
Privilege	20,461			20,461
Rail car	733			733
Gasoline	9,672			9,672
Licenses and permits	31,324			31,324
Fines and forfeitures	99,808			99,808
Intergovernmental revenues	168,185		139,603	307,788
Charges for services	340,587			340,587
Use of money and property	52,444	15	8	52,467
Miscellaneous revenues	53,803	23,300		77,103
Total Revenues	<u>3,693,978</u>	<u>189,346</u>	<u>139,611</u>	<u>4,022,935</u>
EXPENDITURES				
Current:				
General government	773,162			773,162
Public safety	1,134,896	191,857		1,326,753
Public works	1,099,406			1,099,406
Health and welfare				0
Culture and recreation	405,442			405,442
Debt service:				
Principal	546,829			546,829
Interest	70,892			70,892
Capital outlay:				
Airport expansion			119,445	119,445
Total Expenditures	<u>4,030,627</u>	<u>191,857</u>	<u>119,445</u>	<u>4,341,929</u>
Excess of Revenues over (under) Expenditures	<u>(336,649)</u>	<u>(2,511)</u>	<u>20,166</u>	<u>(318,994)</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	108,924			108,924
Short-term non-capital debt issued	136,362			136,362
Proceeds from sale of capital assets	73,540			73,540
Transfers in				0
Transfers out	(2,521)			(2,521)
Total Other Financing Sources and Uses	<u>316,305</u>	<u>0</u>	<u>0</u>	<u>316,305</u>
Net Changes in Fund Balances	<u>(20,344)</u>	<u>(2,511)</u>	<u>20,166</u>	<u>(2,689)</u>
Fund Balances - Beginning	706,239	1,721	0	707,960
Cummulative effect of GASB 34 adjustments			1,570	1,570
Fund Balance - Beginning restated	<u>706,239</u>	<u>1,721</u>	<u>1,570</u>	<u>709,530</u>
Fund Balances - Ending	<u>\$ 685,895</u>	<u>(790)</u>	<u>21,736</u>	<u>706,841</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WAYNESBORO
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities – Exhibit 4.1
September 30, 2004

Net changes in fund balances - total governmental funds (Exhibit 4)	\$	(2,689)
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays <u>\$271,667</u> exceeded depreciation <u>\$174,326</u> in the current period.		97,341
--	--	--------

In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources and loss from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the loss of <u>\$0</u> and the proceeds from the sale of <u>\$73,540</u> in the current period.		(73,540)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments <u>\$546,829</u> exceeded debt proceeds <u>\$245,286</u> .		301,543
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Change in net assets of governmental activities (Exhibit 2)	\$	322,655
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The notes to the financial statements are an integral part of this statement.

CITY OF WAYNESBORO
Statement of Net Assets – Proprietary Fund – Exhibit 5
September 30, 2004

	Business-type Activities Enterprise Fund
	<hr/>
	Water and Sewer Fund
	<hr/>
ASSETS	
Current assets:	
Cash and investments	\$ 203,818
Accounts receivable, net	134,380
Other receivables	0
Due from other funds	0
Inventories	1,000
Total Current Assets	<hr/> 339,198 <hr/>
Noncurrent assets:	
Restricted assets - cash	216,324
Capital assets, net	7,423,581
Total Noncurrent Assets	<hr/> 7,639,905 <hr/>
Total Assets	<hr/> 7,979,103 <hr/>
LIABILITIES	
Current liabilities:	
Accounts payable	27,933
Due to other funds	31,755
Other payables	8,461
Accrued interest payable	1,961
Current portions of long-term capital-related debt:	
Capital loans payable	69,004
Capital leases payable	4,733
Total Current Liabilities	<hr/> 143,847 <hr/>
Current liabilities payable from restricted assets:	
Customer deposits payable	118,167
Revenue bonds payable	89,651
Accrued interest payable on revenue bonds	9,307
Total Current Liabilities payable from restricted assets	<hr/> 217,125 <hr/>
Noncurrent liabilities:	
Capital-related debt:	
Capital improvements loans payable	563,248
Capital leases payable	0
Revenue bonds payable	1,296,259
Total Noncurrent Liabilities	<hr/> 1,859,507 <hr/>
Total Liabilities	<hr/> 2,220,479 <hr/>
NET ASSETS	
Invested in capital assets, net of related debt	5,490,337
Restricted for debt service	216,324
Unrestricted	51,963
Total Net Assets	<hr/> \$ 5,758,624 <hr/>

The notes to the financial statements are an integral part of this statement.

CITY OF WAYNESBORO
Statements of Activities – Proprietary Fund – Exhibit 6
September 30, 2004

	Business-type Activities Enterprise Fund
	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services - water sales	\$ 551,128
Charges for services - sewer charges	497,308
Charges for services - other charges	26,863
Intergovernmental	44,481
Total Operating Revenues	<u>1,119,780</u>
Operating Expenses:	
Cost of Sales - pumping	75,434
Depreciation expense	321,727
Wages	291,479
Payroll expense	55,249
Insurance	41,814
Contractual services	0
Utilities	18,672
Fuel and oil	9,203
Materials and supplies	187,638
Repairs and maintenance - vehicles	12,384
Repairs and maintenance - equipment	58,069
Repairs and maintenance - water tank	70,503
Repairs and maintenance - computers	5,773
Miscellaneous	58,165
Total Operating Expenses	<u>1,206,110</u>
Operating Income (Loss)	<u>(86,330)</u>
Nonoperating Revenues (Expenses)	
Interest income	7,261
Interest expense	(78,708)
Other income (expenses)	0
Net Nonoperating Revenue (Expenses)	<u>(71,447)</u>
Net Income (Loss) Before Contributions and Transfers	(157,777)
Capital contributions	464,500
Transfers in	521
Transfers out	0
Changes in Net Assets	<u>307,244</u>
Net Assets - Beginning	5,514,146
Cummulative effect of GASB Statement No. 34 adjustments	(62,766)
Net Assets - Beginning restated	<u>5,451,380</u>
Net Assets Ending	<u>\$ 5,758,624</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WAYNESBORO
Statement of Cash Flows – Proprietary Fund – Exhibit 7
September 30, 2004

		Business-type Activities Enterprise Fund
		Water and Sewer Fund
Cash Flows From Operating Activities		
Receipts from customers	\$	1,056,041
Payments to suppliers		(452,555)
Payments to employees		(287,515)
Payments for insurance premiums		(50,170)
Other operating cash receipts		44,481
Other operating cash payments		(57,085)
Net Cash Provided (Used) by Operating Activities		<u>253,197</u>
Cash Flows From Noncapital Financing Activities		
Cash received from other funds:		
Operating transfers in		521
Net Cash Provided (Used) by Noncapital Financing Activities		<u>521</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds of long-term debt		422,300
Capital grants received		473,500
Acquisition and construction of capital assets		(934,441)
Principal paid on long-term debt		(157,834)
Interest paid on debt		(72,702)
Net Cash Provided (Used) by Capital and Related Financing Activities		<u>(269,177)</u>
Cash Flows From Investing Activities		
Interest and dividends on investments		7,261
Net Cash Provided (Used) by Investing Activities		<u>7,261</u>
Net Increase (Decrease) in Cash and Cash Equivalents		(8,198)
Cash and Cash Equivalents at Beginning of Year		<u>428,340</u>
Cash and Cash Equivalents at End of Year	\$	<u><u>420,142</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$	(86,330)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense		321,727
Provision for uncollectible accounts		1,929
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable		(31,060)
Increase (decrease) in claims payable		1,024
Increase (decrease) in other payables		39,025
Increase (decrease) in interfund payables		6,882
Total Adjustments		<u>339,527</u>
Net Cash Provided (Used) by Operating Activities	\$	<u><u>253,197</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF WAYNESBORO
Statement of Fiduciary Assets and Liabilities – Exhibit 8
September 30, 2004

	Agency Funds
ASSETS	
Cash and investments	\$ <u>8,272</u>
Total Assets	\$ <u><u>8,272</u></u>
LIABILITIES	
Intergovernmental payables	\$ <u>8,272</u>
Total Liabilities	\$ <u><u>8,272</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF WAYNESBORO
Notes to the Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Waynesboro is a political subdivision of the State of Mississippi. The City operates under an Alderman-Mayor form of government and possesses all rights and privileges provided by statute for municipalities. Generally accepted accounting principles (GAAP) in the United States of America require the City of Waynesboro to present these financial statements on the primary government and its component units, which have significant operational or financial relationships with the City.

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. GAAP criteria have been applied to test for the existence of component units. Management has determined that no component units exist and, therefore, no such data is reported in these financial statements.

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements, which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the City as a whole. The statements include all nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are generally financed through taxes, intergovernmental revenues and other nonexchange revenues, are reported separately from business-type activities

The Statement of Net Assets presents the financial condition of the governmental activities and business-type activities of the City at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the City. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied.

The City's enterprise fund and business-type activities apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of proprietary funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within sixty days after year-end to liquidate liabilities existing at the end of the year. Measurable means knowing

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The City reports the following major governmental funds:

General Fund – This fund is used to account for all activities of the general government for which a separate fund has not been established.

Fire Protection Fund – Accounts for monies from specific revenue sources that are restricted for fire protection services.

The City reports the following major proprietary fund:

Water and Sewer Fund – Accounts for the City's activities of providing water and sewer services to its residents.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds account for, among others, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

Capital Projects Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants.

Permanent Funds – These funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for the support of City programs.

PROPRIETARY FUND TYPES

Enterprise Funds – These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

City has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUND TYPES

Agency Funds – These funds account for various taxes, deposits and other monies collected or held by the City, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2001 by the Government Finance Officers Association and the *Mississippi Municipal Audit and Accounting Guide* as revised in 2003 by the Office of the State Auditor.

E. Deposits and Investments

State law authorizes the City to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the City may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the City did not invest in any governmental securities during the fiscal year.

F. Receivables

Receivables are reported net of allowances for uncollectible accounts, where applicable.

G. Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements, and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

H. Restricted Assets

Proprietary Fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets.

I. Capital Assets

Capital acquisition and construction are reflected as expenditures in governmental fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statement. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist.

Capital assets include significant amounts of infrastructure, which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

General infrastructure asset acquired prior to October 1, 2003, are not reported in the basis financial statements. However, the City will retroactively report general infrastructure assets acquired after September 30, 1980, but has deferred reporting these amounts to future years the September 30, 2008 deadline to report these amounts. Thus, they are not yet included in capital assets amounts. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2003.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the City's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year.

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

The following schedule details the City's capitalization thresholds.

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>	<u>Salvage Value</u>
Land	\$ 0	n/a	n/a
Infrastructure	0	20-50 years	0 - 30%
Buildings	5,000	40 years	20%
Improvements other than buildings	5,000	20 years	20%
Mobile equipment	5,000	5-10 years	10%
Furniture and equipment	5,000	3-7 years	1 - 10%
Leased property under capital leases	*	*	*

* Leased property capitalization policy will correspond with the amounts for the asset classification, as listed above.

J. Long-term liabilities

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, constructions or improvements of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved, with unreserved classified as designated and undesignated.

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

L. Property Tax Revenues

Various statutes exist under which the City may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the City. Restrictions associated with property tax levies vary with the statutory authority.

Governing authorities, each year at a meeting in September, levy property taxes for the ensuing fiscal year, which begins on October 1. Real property taxes become a lien on January 1 of the current year and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

M. Intergovernmental Revenues in Governmental Funds

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

N. Compensated Absences

The City does not currently have a policy of compensation for accumulated unpaid employee personal leave. Additionally, no policy exists for accrued major medical leave. Therefore, no liability is recorded for accrued unpaid employee benefits in the accompanying financial statements.

(2) Changes in Accounting Principles and Restatement of Fund Balance

For the fiscal year ended September 30, 2004, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB Statement No. 34, as amended by Statement No. 37, creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements prepared on the modified accrual basis of accounting, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total on the fund financial statements as other governmental funds. Fund reclassifications and adjustments to the fund equities reported in the prior year financial statements were required as a result of the conversion to GASB Statement No. 34.

GASB Statement No. 38 requires certain note disclosures with the implementation of GASB Statement No. 34.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

The provisions of these new statements have been incorporated into the financial statements and the accompanying notes.

(3) Deposits

The carrying amount of the City's total deposits with financial institutions at September 30, 2004, was \$997,830 and the bank balance was \$1,039,654. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

(4) Interfund Transactions and Balances

The following is a summary of interfund balances at September 30, 2004:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:		
General Fund	Water & Sewer Fund	\$ 31,755
Fire Protection Fund	General Fund	<u>2,164</u>
Total		<u>\$ 33,919</u>

All interfund balances are expected to be repaid within one year from the date of the financial statements.

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Agency fund	General Fund	\$ 2,000
Water & Sewer Fund	General Fund	<u>521</u>
Total		<u>\$ 2,521</u>

All interfund transfers were routine and consistent with the activities of the fund making the transfer.

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

(5) Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2004:

Governmental activities:

	Balance Oct. 1, 2003	Additions	Deletions	Adjustments	Balance Sept. 30, 2004
<u>Non-depreciable capital assets:</u>					
Land	\$ 105,332	-	-	-	105,332
Construction in progress	201,716	119,445	201,716	2,053,244	2,172,689
Total non-depreciable capital assets	307,048	119,445	201,716	2,053,244	2,278,021
<u>Depreciable capital assets:</u>					
Infrastructure	-	-	-	-	-
Buildings	4,660,210	-	-	(1,624,747)	3,035,463
Improvements other than buildings	-	-	-	277,180	277,180
Mobile equipment	2,335,040	25,748	-	(1,627,434)	733,354
Furniture and equipment	-	17,550	-	6,036	23,586
Leased property under capital leases	-	108,924	-	403,041	511,965
Total depreciable capital assets	6,995,250	152,222	-	(2,565,924)	4,581,548
<u>Less accumulated depreciation</u>					
Infrastructure	-	-	-	-	-
Buildings	-	58,593	-	411,541	470,134
Improvements other than buildings	-	10,400	-	178,592	188,992
Mobile equipment	-	48,277	-	544,489	592,766
Furniture and equipment	-	3,159	-	5,432	8,591
Leased property under capital leases	-	53,897	-	133,943	187,840
Total accumulated depreciation	-	174,326	-	1,273,997	1,448,323
Total depreciable capital assets, net	6,995,250	(22,104)	-	(3,839,921)	3,133,225
Governmental activities capital assets, net	\$ 7,302,298	97,341	201,716	(1,786,677)	5,411,246

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

Business-type activities:

	Balance Oct. 1, 2003	Additions	Deletions	Adjustments	Balance Sept. 30, 2004
<u>Non-depreciable capital assets:</u>					
Land	\$ -	-	-	-	-
Construction in progress	-	895,332	-	-	895,332
Total non-depreciable capital assets	-	895,332	-	-	895,332
<u>Depreciable capital assets:</u>					
Infrastructure	12,630,557			(697,475)	11,933,082
Buildings	-	39,109	-	1,036,927	1,076,036
Improvements other than buildings	-	-	-	-	-
Mobile equipment	28,462	-	-	158,609	187,071
Furniture and equipment	9,211	-	-	94,536	103,747
Leased property under capital leases	-	-	-	27,906	27,906
Total depreciable capital assets	12,668,230	39,109	-	620,503	13,327,842
<u>Less accumulated depreciation</u>					
Infrastructure	5,766,218	281,210	-	(28,602)	6,018,826
Buildings	-	21,193	-	542,119	563,312
Improvements other than buildings	-	-	-	-	-
Mobile equipment	-	5,442	-	140,789	146,231
Furniture and equipment	-	8,859	-	37,250	46,109
Leased property under capital leases	-	5,023	-	20,092	25,115
Total accumulated depreciation	5,766,218	321,727	-	711,648	6,799,593
Total depreciable capital assets, net	6,902,012	(282,618)	-	(91,145)	6,528,249
Business-type activities capital assets, net	6,902,012	612,714	-	(91,145)	7,423,581

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 71,504
Public safety	56,021
Public works	44,857
Culture and recreation	<u>1,944</u>
Total governmental activities depreciation expense	\$ <u><u>174,326</u></u>
Business-type Activities:	
Water & Sewer	\$ <u><u>321,727</u></u>
Total business-type activities depreciation expense	\$ <u><u>321,727</u></u>

(6) Risk Financing

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

The City also carries commercial insurance for worker's compensation activities through Mississippi Municipal Services Company and employee health and accident coverage through Mississippi Blue Cross and Blue Shield as of September 30, 2004.

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

(7) Capital Leases

As Lessee:

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2004:

<u>Classes of Property</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Mobile equipment	\$ <u>511,965</u>	<u>27,906</u>
Total	511,965	27,906
Less: Accumulated depreciation	<u>187,840</u>	<u>25,115</u>
Leased Property Under Capital Leases	\$ <u><u>324,125</u></u>	<u><u>2,791</u></u>

The following is a schedule by years of the total payments due as of September 30, 2004:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 87,425	6,613	4,733	116
2006	44,731	4,109	-	-
2007	29,310	2,814	-	-
2008	48,782	1,512	-	-
2009	23,076	537	-	-
2010 - 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u><u>233,324</u></u>	<u><u>15,585</u></u>	<u><u>4,733</u></u>	<u><u>116</u></u>

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

(8) Long-term Debt

Debt outstanding as of September 30, 2004, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rates	Final Maturity Date
Governmental Activities:			
Capital Leases:			
Trustmark National Bank- (2) Int'l 4700 trucks, (1) Knuckleboom Loader	\$ 21,131	5.85%	July 2005
Trustmark National Bank- (2) 2001 Dodge Ram 1500 trucks, and (1) Tennant street sweeper, (1600) garbage carts	20,518	5.34%	Mar. 2005
Trustmark National Bank- (1) Garbage truck w/ dump body, (408) garbage carts	18,123	5.06%	Sept. 2006
Caterpillar Financial- (1) Caterpillar 312L Excavator	74,019	3.39%	Mar. 2008
Trustmark National Bank- (2) 2004 Crown Victoria police cars	31,938	3.09%	Feb. 2007
First Continental Leasing- (1) 2004 Crown Victoria police car	19,140	3.09%	June 2007
First Continental Leasing- (1) 2004 Caterpillar Backhoe	48,455	3.14%	July 2009
Total Capital Leases	\$ 233,324		
Other Loans:			
First State Bank- City Hall building	\$ 240,000	5.50%	Sept. 2008
First State Bank- Waynesboro-Wayne County Library building	545,000	5.28%	Mar. 2011
First State Bank- Library relocation and renovation	163,919	3.45%	Nov. 2007
First State Bank- Package and Airport Insurance Coverage Premium	27,830	6.083%	Nov. 2004
Total Other Loans	\$ 976,749		
Total Governmental Activities	\$ 1,210,073		
Business-type Activities:			
Revenue Bonds:			
1973 Series HUD Revenue Bonds (Combined Water & Sewer System)	\$ 92,000	6.00%	Jan. 2008
1983 Series FmHA Revenue Bonds (Combined Water & Sewer System)	871,610	5.00%	Feb. 2018
2004 Series RUS Revenue Bonds (Combined Water & Sewer System)	422,300	4.50%	Mar. 2039
Total Revenue Bonds	\$ 1,385,910		
Capital Leases:			
Trustmark National Bank- (2) 2001 Dodge Ram 1500 trucks	\$ 4,733	5.85%	July 2005
Other Loans:			
1996 Capital Improvements Loan (MLK Sewer Project)	\$ 83,263	4.25%	Sept. 2011
1997 Capital Improvements Loan (Treatment Plant)	305,658	4.25%	Oct. 2012
1998 Capital Improvements Loan (West Avenue Sewer Improv.)	61,378	3.00%	Mar. 2013
1999 Capital Improvements Loan (Pump Station Renovation)	181,952	3.00%	Sept. 2014
Total Other Loans	\$ 632,252		
Total Business-type Activities	\$ 2,022,895		

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

Governmental Activities:

<u>Year Ending September 30,</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 186,710	46,222
2006	170,255	38,045
2007	176,663	29,509
2008	188,121	20,659
2009	80,000	11,352
2010 - 2014	<u>175,000</u>	<u>9,372</u>
Total	<u>\$ 976,749</u>	<u>155,159</u>

Business-type Activities:

<u>Year Ending September 30,</u>	<u>Revenue Bonds</u>		<u>Capital Improv. Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 89,651	62,093	70,431	21,805
2006	95,922	71,121	72,386	19,850
2007	102,563	55,959	75,223	17,013
2008	106,097	51,045	78,174	14,061
2009	87,848	45,605	81,244	10,992
2010 - 2014	510,857	156,413	254,794	18,044
2015 - 2019	75,035	77,987	-	-
2020 - 2024	58,160	65,920	-	-
2025 - 2029	72,792	51,288	-	-
2030 - 2034	91,120	32,959	-	-
2035 - 2039	<u>95,865</u>	<u>10,201</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,385,910</u>	<u>680,591</u>	<u>632,252</u>	<u>101,765</u>

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

Legal Debt Margin - The amount of debt that can be incurred by the City is limited by state statute.

In general all debt of the City can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. However, certain types of debt are specifically exempted from the 15% limitation, such as Water and Sewer revenue bonds and capital improvement loans through the Mississippi Development Authority. As of September 30, 2004, the City is in compliance with the 15% limitation, and has margin for further indebtedness under this respective debt limit of \$3,579,497.

State statute limits *all* debt of the City to 20% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. As of September 30, 2004, the City is in compliance with the 20% limitation and has margin for further indebtedness under this respective debt limit of \$3,159,436.

(9) Contingencies

Federal Grants – The City has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the City. No provision for any liability that may result has been recognized in the City's financial statements.

Litigation – The City is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the City with respect to the various proceedings. However, the City's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the City.

(10) Joint ventures

The City participates in the following joint ventures:

The City of Waynesboro is a participant with Wayne County in a joint venture authorized by Section 39-3-8, Miss. Code Ann. (1972), to operate the Waynesboro-Wayne County Library System. The Library was created to provide free public library service to citizens of the respective county and city. A ten-member board, one from each county and city district, governs the Library. The county and city are obligated by contract to levy not more than a four mill and three mill tax, respectively, as provided by Sections 39-3-5(1) and 39-3-7(1), Miss. Code Ann.

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

(1972), respectively, for the ongoing financial support of the Library. By contractual agreement, the City's appropriation from the General Fund this year to the joint venture amounted to \$77,575. Complete financial statements for the Library can be obtained from the Waynesboro-Wayne County Library, Waynesboro, Mississippi.

The City of Waynesboro is a participant with Wayne County, George County, Greene County, the City of Quitman, and the City of Lucedale in a joint venture to operate the South Mississippi Narcotics Task Force organized under the Interlocal Cooperation Act of 1974, Section 17-13-1 through 17-13-11, Miss. Code Ann. (1972). The Task Force was created to provide a joint law enforcement effort between the participants. A six-member board governs the Task Force, consisting of the sheriff/police chief from each participating entity. By contractual agreement, the City's appropriation from the General Fund this year to the joint venture amounted to \$12,958. Complete financial statements for the Task Force can be obtained from the South Mississippi Narcotics Task Force, Waynesboro, Mississippi.

(11) Defined Benefit Pension Plan

Plan Description – The City of Waynesboro, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy – PERS members are required to contribute 7.25% of their annual covered salary and the county is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions (employer share only) to PERS for the years ending September 30, 2004, 2003, and 2002 were \$159,263, \$163,587, and \$153,393, respectively, equal to the required contributions for each year.

CITY OF WAYNESBORO
Notes To The Financial Statements
For The Year Ended September 30, 2004
(continued)

(12) Other Information

The following is a schedule of surety bonds for municipal officials as of September 30, 2004:

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Marshall Wood	Mayor	Western Surety Co.	\$ 175,000
Marshall Wood	Mayor	Western Surety Co.	50,000
Sytrecia C. Hull	City Clerk	Western Surety Co.	175,000
Sytrecia C. Hull	City Clerk	Western Surety Co.	50,000
Susan Hardee	Office Clerk	Western Surety Co.	12,500
Terri Seawright	Deputy Clerk	Western Surety Co.	12,500
Leonard Frost	Police Chief	Western Surety Co.	50,000
Stephanie West	Court Clerk	Western Surety Co.	10,000
Mark West	Special Investigator	Western Surety Co.	25,000
Jan Bishop	Purchasing Clerk	Western Surety Co.	12,500
Sherry Burke	Police Clerk	Western Surety Co.	10,000
The Water Dept. of Waynesboro	2 Water Dept. Clerks	Western Surety Co.	10,000
Various Police officers	Police officers	Western Surety Co.	1,000 to 25,000

CITY OF WAYNESBORO

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WAYNESBORO
Budgetary Comparison Schedule – Budget and Actual
(GAAP Basis with Reconciliation to Cash Basis) – General Fund
September 30, 2004

	Original Budget	Final Budget	Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 700,000	650,000	658,802	8,802
State Shared revenues	1,665,500	1,665,500	1,930,154	264,654
Licenses and permits	29,800	27,000	31,324	4,324
Fines and forfeitures	100,000	90,000	99,808	9,808
Grant proceeds	99,548	99,548	168,185	68,637
Other sources	853,267	925,854	805,705	(120,149)
Total Revenues	<u>3,448,115</u>	<u>3,457,902</u>	<u>3,693,978</u>	<u>236,076</u>
EXPENDITURES				
Current:				
General government	922,314	932,314	1,126,186	(193,872)
Public safety	1,247,440	1,321,511	1,148,676	172,835
Public works	1,016,202	1,151,423	1,215,334	(63,911)
Culture and recreation	595,772	595,772	540,431	55,341
Total Expenditures	<u>3,781,728</u>	<u>4,001,020</u>	<u>4,030,627</u>	<u>(29,607)</u>
Excess of Revenues over (under) Expenditures	<u>(333,613)</u>	<u>(543,118)</u>	<u>(336,649)</u>	<u>206,469</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued			108,924	108,924
Short-term debt issued			136,362	136,362
Proceeds from sale of capital assets			73,540	73,540
Transfers in				0
Transfers out			(2,521)	(2,521)
Total Other Financing Sources and Uses	<u>0</u>	<u>0</u>	<u>316,305</u>	<u>316,305</u>
Net Change in Fund Balance	(333,613)	(543,118)	(20,344)	522,774
Fund Balances - Beginning	350,000	600,000	706,239	106,239
Fund Balances - Ending	<u>\$ 16,387</u>	<u>56,882</u>	<u>685,895</u>	<u>629,013</u>
Net Change in Fund Balance (GAAP basis)			\$ (20,344)	
Increase / (Decrease)				
Net adjustment for revenue accruals			260,849	
Net adjustment for expenditure accruals			<u>(237,380)</u>	
Net Change in Budgetary Fund Balance (cash basis)			<u>\$ 3,125</u>	

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

CITY OF WAYNESBORO
Budgetary Comparison Schedule – Budget and Actual
(GAAP Basis with Reconciliation to Cash Basis) – Fire Protection Fund
September 30, 2004

	Original Budget	Final Budget	Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 149,000	147,000	166,031	19,031
State Shared revenues	23,400	22,205	23,300	1,095
Use of money and property	50	1,073	15	(1,058)
Total Revenues	<u>172,450</u>	<u>170,278</u>	<u>189,346</u>	<u>19,068</u>
EXPENDITURES				
Current:				
Personnel, Fixed Assets, and Other	189,867	197,204	191,857	5,347
Total Expenditures	<u>189,867</u>	<u>197,204</u>	<u>191,857</u>	<u>5,347</u>
Excess of Revenues over (under) Expenditures	<u>(17,417)</u>	<u>(26,926)</u>	<u>(2,511)</u>	<u>24,415</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	17,417	6,926	0	(6,926)
Transfers out				0
Total Other Financing Sources and Uses	<u>17,417</u>	<u>6,926</u>	<u>0</u>	<u>(6,926)</u>
Net Change in Fund Balance	0	(20,000)	(2,511)	17,489
Fund Balances - Beginning	0	20,000	1,721	(18,279)
Fund Balances - Ending	<u>\$ 0</u>	<u>0</u>	<u>(790)</u>	<u>(790)</u>
Net Change in Fund Balance (GAAP basis)			\$ (2,511)	
Increase / (Decrease)				
Net adjustment for revenue accruals			6,031	
Net adjustment for expenditure accruals			<u>(4,686)</u>	
Net Change in Budgetary Fund Balance (cash basis)			<u>\$ (1,166)</u>	

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

CITY OF WAYNESBORO
Notes to the Required Supplementary Information
September 30, 2004

A. Budgetary Information

Statutory requirements dictate how and when the City's budget is to be prepared. Generally, in the month of July, departmental budgets are to be submitted for approval to the governing authorities. The total proposed budget should be presented at the August meeting of the board/council each year and should be published at least one time during September. At least one public hearing must be held at least one week prior to the final official adoption of the budget by September 15. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the board that budgetary estimates will not be met, it may make revisions to the budget.

The City's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation

The Budgetary Comparison Schedule – Budget and Actual (GAAP Basis w/ reconciliation to cash basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a GAAP (modified accrual) basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major special revenue fund.

For the year ended September 30, 2004, the City implemented GASB Statement No. 41 – *Budgetary Comparison Schedules – Perspective Differences, which amends GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The statement clarifies the budgetary presentation requirements. The Budgetary Comparison Schedule – Budget and Actual (GAAP Basis w/ reconciliation to cash basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation

A reconciliation of differences between the City's budgetary basis and the GAAP basis is provided on the face of the Budgetary Comparison Schedule – Budget and Actual. The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

SUPPLEMENTAL INFORMATION

CITY OF WAYNESBORO
Schedule of Expenditures of Federal Awards
September 30, 2004

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:			
Water & Water Disposal Systems for Rural Communities - Direct Loans	10.770		\$ 422,300
Water & Water Disposal Systems for Rural Communities - Project Grants	10.760		<u>40,532</u>
Total U.S. Department of Agriculture			<u>462,832</u>
U.S. Department of Housing & Urban Development:			
Pass-through program from State of Mississippi Development Authority:			
Community Development Block Grant - State's Program	14.228	1117-00-380-PF-01	<u>432,500</u>
U.S. Department of Transportation:			
Airport Improvement Program	20.106		<u>115,960</u>
U.S. Department of Justice:			
Pass-through program from State of Mississippi Emergency Management Agency:			
State Domestic Preparedness Equipment Support Program	16.007	3SSG-3066	<u>27,031</u>
U.S. Department of Homeland Security:			
Pass-through program from State of Mississippi Emergency Management Agency:			
Federal Disaster Assistance Program	97.036	FEMA-1550-DR-MS	<u>44,876</u>
Total expenditures of federal awards			\$ <u><u>1,083,199</u></u>

NOTE A – BASIS OF PRESENTATION

The above schedule of expenditures of federal awards includes the federal grant activity of the City of Waynesboro and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF WAYNESBORO

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

SAMUEL F BRITTON
Certified Public Accountant

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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of the Board of Aldermen
Waynesboro, Mississippi

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waynesboro, Mississippi as of and for the year ended September 30, 2004, and have issued my report thereon dated January 27, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted a certain immaterial instance of noncompliance that I have reported to management of the City of Waynesboro in a separate letter dated January 27, 2005, which is included in this report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my opinion, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 04-1 and 04-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, I believe none of the reportable conditions referred to above is a material weakness.

Samuel F. Britton, CPA

Waynesboro, Mississippi
January 27, 2005

SAMUEL F BRITTON
Certified Public Accountant

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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members of the Board of Aldermen
Waynesboro, Mississippi

Compliance

I have audited the compliance of the City of Waynesboro with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The City's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. My responsibility is to express an opinion on the City's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City's compliance with those requirements.

In my opinion, the City of Waynesboro complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the City of Waynesboro is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose

of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters related to internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the City of Waynesboro and management, entities with oversight responsibility, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Samuel J. Britton, CPA

Waynesboro, Mississippi
January 27, 2005

CITY OF WAYNESBORO

COMPLIANCE WITH STATE LAWS AND REGULATIONS

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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Honorable Mayor and Members of the Board of Aldermen
Waynesboro, Mississippi

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waynesboro as of and for the year ended September 30, 2004, and have issued my report thereon dated January 27, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of those procedures and my audit of the above mentioned financial statements disclosed the following immaterial instance of noncompliance with state laws and regulations. My finding and recommendation and your response is as follows:

Finding 04-3

The Office of the State Auditor has prescribed certain accounting procedures and policies contained in the Mississippi Municipal Audit and Accounting Guide (MAAG). Section II of the MAAG requires that fixed assets be properly tagged and accounted for.

Per observation and inquiry, it was determined that fixed assets were not being properly tagged and accounted for as of September 30, 2004.

Recommendation

I recommend that the City of Waynesboro maintain fixed asset records and implement a property tagging system in accordance with the Mississippi Municipal Audit and Accounting Guide.

Response

The City of Waynesboro is in the process of implementing the prescribed procedures and policies.

The instances of noncompliance of the prior year have been corrected by management unless it is specifically stated otherwise in the findings and recommendations noted above.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the finding in this report to ensure that corrective action has been taken.

This report is intended for the information of the City's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Samuel J. Britton, CPA

Waynesboro, Mississippi
January 27, 2005

CITY OF WAYNESBORO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (IF ANY)

CITY OF WAYNESBORO
Schedule of Findings and Questioned Costs (if any)
For the Year Ended September 30, 2004

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | No |
| | b. Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | | |
|----|--|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weakness(es) identified? | No |
| | b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section __.510 (a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | a. Water and Water Disposal Systems for Rural Communities
CFDA # 10.770 | |
| | b. Community Development Block Grant – State's Program
CFDA # 14.228 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |

CITY OF WAYNESBORO
Schedule of Findings and Questioned Costs (if any)
For the Year Ended September 30, 2004
(continued)

10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? No

Section 2: Financial Statement Findings

Item 04-1 Finding

Expenditures made by the City of Waynesboro are required to be in compliance with the City's internal control procedures. My test results identified one instance where there was no evidence of receipt of goods purchased.

Recommendation

I recommend that the City of Waynesboro have evidence of receipt of goods purchased.

Auditee's Response

The City of Waynesboro will take steps to ensure that there is evidence of receipt of all goods purchased.

Item 04-2 Finding

Expenditures made by the City of Waynesboro are required to be in compliance with the City's internal control procedures. My test results identified one instance where there was no purchase order obtained for goods purchased.

Recommendation

I recommend that the City of Waynesboro adhere to internal control procedures by obtaining purchase orders on required purchases.

Auditee's Response

The City of Waynesboro will take steps to ensure purchase orders are obtained on all required purchases.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.